

**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
APRIL 1, 2006 TO JUNE 30, 2006**



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Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

July 5, 2006

The Honorable Thomas K. Norment Jr., Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period April 1, 2006 through June 30, 2006.

During this quarter, we issued *Progress Report on Selected System Development Projects in the Commonwealth*. This report provides a review of major information technology projects both financial and non-financial in the Commonwealth. This report is an adjunct our other reports on either the agency or the individual projects.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:sks

EXECUTIVE SUMMARY

A REVIEW OF INFORMATION TECHNOLOGY GOVERNANCE AND VIRGINIA INFORMATION TECHNOLOGIES AGENCY OPERATIONS IN THE COMMONWEALTH OF VIRGINIA

The Code of Virginia established the Information Technology Investment Board (Board), the Chief Information Officer (CIO), and the Virginia Information Technologies Agency (VITA) as largely responsible for the Commonwealth's IT governance. IT governance involves establishing policies and standards that all Commonwealth agencies must follow.

The purpose of our audit was to identify areas where the Board, the CIO and VITA can improve the qualitative aspects of fulfilling IT governance statutes, referred to as legislative intent. As a result, our audit examined the statutes in context of whether the Board, the CIO and VITA have realized the potential that the legislation created, not whether they explicitly met the statutes. Where appropriate, our report recommends actions that the Board, the CIO and VITA can take as they move forward in developing strong IT governance.

Since beginning operations in 2003, the Board, the CIO and VITA have performed a significant amount of work effort towards improving the Commonwealth's IT governance. However, their ability to realize the legislative intent of these statutes has been slow due to competing priorities with VITA's IT operations that have demanded attention and resources. Specifically, VITA management and staff, the CIO, and Board have spent significant resources arranging and establishing the Commonwealth's relationship with Northrop Grumman, a company hired to manage and operate the Commonwealth's IT infrastructure beginning July 1, 2006.

The Board, CIO and VITA have experienced delays in fully meeting the potential of their responsibilities because of the time required to create a new entity, competing priorities and the almost nine months spent in hiring a CIO. During this delay, certain factors external to VITA set the early agenda for the Board, the CIO and VITA by default. It appears that the Board, CIO and VITA now have the direction to increase their momentum in meeting the legislative intent of their statutory responsibilities.

Under the current model, VITA staff have a conflict between their operational function, which is customer-service oriented, and their need to support the Board and CIO's governance function. The dual responsibilities sometimes add confusion regarding how VITA staff and Commonwealth agencies view VITA's role. The Board and CIO should improve this inherent conflict by increasing the Board's direction and involvement in IT governance, allowing governance issues to be communicated by the Board, or the CIO rather than VITA; thereby, separating this function from the VITA staff performing IT operations functions.

In April 2006, the Board approved the Commonwealth's IT Strategic Plan, which VITA staff prepared with the assistance of representatives of other State agencies. To realize the potential of this plan, it is important that the Board, the CIO and VITA clearly communicate it to state agencies and explain how they should use it to develop their agency IT strategic plans. For the plan to affect agencies systems development requests and their related budgets in the future, the Board, the CIO and VITA must work jointly with the Secretaries of Finance and Technology and the Department of Planning and Budget to incorporate this IT strategic plan into the Commonwealth's performance budgeting process.

CHRISTOPHER NEWPORT UNIVERSITY

Improve Financial Statement Preparation Process

The current financial statement preparation process puts the University at risk of losing its decentralized delegation of authority. The AICPA has adopted new auditing standards effective with the audit for the year ended June 30, 2007, and had we conducted the current audit following these standards, we would have reported a material weakness in internal controls. Having a material weakness in internal control for two years would result in the loss of decentralized delegation of authority.

The new auditing standard will require the auditor to review the financial statement preparation process including the gathering of all information from throughout the campus and determining the adequacy of support for all information in the statements and related journal vouchers. The auditor must also determine if a proper segregation of duties exists within the process. Finally, the auditor must determine if the process is sufficiently comprehensive to produce financial statements without the auditor finding any material audit adjustments, which, even if recorded, could result in a material weakness.

We have reported in several past audits the need to improve the financial statement preparation process. We were under the impression that as part of the University's new financial system implementation process, that management would address these prior audit findings. As noted below, financial statement preparation process still remains in the same state that it was before the implementation of the new financial system.

The University Comptroller has not documented the process used to prepare the annual financial statements. Without a documented financial statement preparation process, it is difficult to evaluate the controls over financial reporting, key reconciliations, and procedures necessary to ensure accurate and consistent financial statements. Additionally, without a documented process for financial statement preparation, other staff would find it difficult to aid in the preparation of the financial statements.

The University Comptroller completes the financial statements with little involvement of other University staff. The situation creates a lack of segregation of duties between the preparation and the internal review of the financial statements. Also, without documented procedures, there is little or no cross-training and there is serious doubt as to whether any current University employee or new employee could replicate the current financial statement preparation process in the absence of the Comptroller.

The University Comptroller prepares the financial statements in addition to performing all of her other duties; as a result, the Comptroller has not had the opportunity to document the financial statement preparation process or train other individuals to assist in the process. Documenting and organizing the process is a starting point to providing cross-training. The University has hired an experienced individual to lead financial statement preparation and to work with the University Comptroller in documenting the financial statement preparation process.

Finally, the University Comptroller uses extensive manual processes in the preparation of the University's financial statements. Using manual processes increases the risk of errors or misstatements in the financial statements and greatly increases the time and effort necessary to complete the financial statements. The University needs to be able to rely more on its financial accounting system to assist in the financial statements preparation process.

DEPARTMENT OF GAME AND INLAND FISHERIES

Our audit of the Department of Game and Inland Fisheries (Game) focused primarily on policies and procedures in the areas noted in our prior Game audit report and areas of concern in the Department of the State Internal Auditors' 2005 fraud investigation. Specifically, we reviewed and considered policies and procedures in the areas of personal services, charge card purchases, equipment inventory, procurement, travel, vehicles, video production, uniforms, and equipment field testing, and Board governance.

Overall, we found that:

- Game has established adequate written policies and procedures to address prior deficiencies that comply with established Commonwealth policies and procedures and other relevant laws and regulations;
- Game has controls, which they follow to monitor compliance with their policies and procedures; and
- the Board has established policies and procedures including, but not limited to, Board governance, the role of the Chairman, and performance criteria for evaluating the Director's performance.

Our report includes several recommendations for Game to continue to enhance their processes and controls.

DEPARTMENT OF MINORITY BUSINESS ENTERPRISE

Our work covered the period July 1, 2004, through January 31, 2006, and found proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System. We did find matters involving compliance and internal control and its operation that we have communicated to management in the Internal Control Findings and Recommendations section of that report.

Status of Prior Findings and Recommendations

Our audit of the Department of Minority Business Enterprise continued to find many of the same problems with internal control and compliance during fiscal year 2005 that we discussed in prior reports. We did not repeat most of the findings included in the "Consolidate Fiscal and Procurement Operations with Another Agency" recommendation because, as of July 1, 2005, the Department of Housing and Community Development (Housing) assumed responsibility for the fiscal and human resource functions of the Department of Minority Business Enterprise (Department). We have noted improvements in the Department's fiscal operations since Housing took on these responsibilities. However, we recommend the Department and Housing enhance their Memorandum of Agreement to correct the remaining internal control weaknesses in the Department's operations.

In addition, the Department has not completed corrective action on the previously reported findings "Update Memorandum of Understanding and Funding Plan" and "Improve Controls over Cell Phone Usage." Therefore, we have reissued those findings in our report.

DEPARTMENT OF STATE POLICE

State Police management is responsible for establishing and maintaining effective internal control. Internal control is a framework designed to provide reasonable assurance over the reliability of financial records, effectiveness, and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations.

Our audit found several issues in areas related to accounting and internal controls that add to challenges in the overall financial management of the State Police. The common issues we found during our audit include a lack of written policies and procedures, inadequate management oversight, and the use of antiquated systems and inefficient processes. These issues are particularly significant in overtime reporting, processing, and billing.

The results indicate a clear need for process changes as well as enhanced automation. These changes will require an extensive realignment of administrative and law enforcement interactions.

The State Police may need to seek outside expertise on how to achieve these changes. The use of someone independent of the organization will give management the opportunity to look at its administrative and law enforcement support functions and separate the activities that are truly unique to only the Virginia State Police from those used by other organizations, both law enforcement and civilian.

We understand that State Police management faces complex and difficult challenges. However, not making some of these longer-term changes will lead to more of the accounting and internal control issues included in this report.

VIRGINIA MILITARY INSTITUTE *Review of Controls Over Cashiering Function*

In accordance with Section 30-138 of the Code of Virginia, on September 14, 2005, Virginia Military Institute (VMI) management notified the Auditor of Public Accounts and the Superintendent of the State Police that they had uncovered inappropriately cashed student payroll checks. The students never received the checks, yet someone had endorsed and cashed the payroll checks through the Cashier's change fund.

The Cashier maintained an imprest cash fund of \$7,000 for the purpose of cashing payroll and accommodation checks for cadets, faculty, and employees. The Cashier would cash the checks and then send the checks to the bank. The bank would return cash in the amount of these checks to replenish the fund. Additionally, the Institute's policy was to not cash checks made payable to Virginia Military Institute.

Upon discovery of the fraudulent activity with the payroll checks, VMI personnel expanded their investigation and discovered additional incidents that looked highly suspicious. They have identified over 130 transactions dating back to January 2003 with the potential loss approximately \$111,500. Most of these incidents involve checks for activities made payable to the Treasurer of VMI, which were miscellaneous revenues that did not have close management oversight.

The State Police and Commonwealth's Attorney have identified an employee who had access to this account and have arrested and indicted this individual. In addition to the diversions discussed above, there are some instances involving payment vouchers to VMI fabricated by the employee, who appears to have forged the signature of her supervisor. The employee would also send these checks to the bank, and would keep all or a portion of the returned cash.

VMI management requested that the Auditor of Public Accounts perform a special review of the Institute's policies and procedures regarding its cashier's function. In performing our work, we reviewed the responsibilities of the cashing function, evaluated the current policies and procedures, and assessed internal controls. We have ten recommendations for strengthening the Institute's policies and procedures. Within our recommendations, we report the Institute's policy at the time of the loss, any actions already taken by the Institute, and our recommendations. As the Institute continues to implement corrective action, they should appropriately document revised policies and procedures and ensure the departments have put the policies and procedures into operation.

SUMMARY OF REPORTS ISSUED

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The following reports on audit were released by this Office during the period April 1, 2006 through June 30, 2006. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Executive Departments

Administration

Virginia War Memorial Foundation for the year ended June 30, 2005

Agriculture and Forestry

Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the year ended June 30, 2005

Commerce and Trade

Department of Labor and Industry for the year ended June 30, 2005

Department of Minority Business Enterprise for the period July 1, 2004 through January 31, 2006*

Department of Professional and Occupational Regulation for the year ended June 30, 2005

Department of Housing and Community Development for the year ended June 30, 2005*

Education

Southwest Virginia Higher Education Center for the year ended June 30, 2005

Virginia Commission for the Arts for the period January 1, 2004 through June 30, 2005

Colleges and Universities

Christopher Newport University for the year ended June 30, 2005*

College of William and Mary in Virginia for the year ended June 30, 2005*

George Mason University for the year ended June 30, 2005

James Madison University for the years ended June 30, 2005 and 2004

Norfolk State University for the year ended June 30, 2005*

Old Dominion University for the year ended June 30, 2005*

Virginia Community College System for the year ended June 30, 2005*

Virginia Military Institute for the year ended June 30, 2005*

Virginia State University for the year ended June 30, 2005*

Independent Agencies

Lotto South -- State Lottery Department Report on Applying Agreed-Upon Procedures for the period
April 1, 2005 through February 25, 2006
Virginia Worker's Compensation Commission for the year ended June 30, 2005

Natural Resources

Department of Environmental Quality for the year ended June 30, 2005
Department of Historic Resources, for the year ended June 30, 2005

Public Safety

Department of State Police for the period of July 1, 2004 through December 31, 2005*
Virginia Correctional Enterprises, Department of Corrections, for the year ended June 30, 2005*

Technology

Virginia's A.L. Philpott Manufacturing Extension Partnership for the year ended June 30, 2005

Special Reports

Review of Information Technology Governance and Virginia Information Technologies Agency Operations
April 2006*
Progress Report on Selected Information Technology Projects in the Commonwealth, June 2006*
Virginia Information Technologies Agency (Formerly Virginia Information Providers Network) as of
May 1, 2006
Virginia Military Institute Review of Controls over Cashiering Function, March 2006*

Clerks of the Circuit Courts

Cities:

City of Hopewell Clerk of the Circuit Court for the period January 1, 2005 through March 31, 2006
City of Newport News Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
City of Norfolk Clerk of the Circuit Court for the period January 1, 2005 through March 31, 2006
City of Roanoke Clerk of the Circuit Court for the period January 1, 2005 through December 31, 2005
City of Virginia Beach Clerk of the Circuit Court for the period January 1, 2005 through
December 31, 2005

Counties:

County of Alleghany Clerk of the Circuit Court for the period October 1, 2004 through March 25, 2006
County of Alleghany Clerk of the Circuit Court Turnover Audit for the period October 1, 2004 through March 25, 2006
County of Buckingham Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Charlotte Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Craig Clerk of the Circuit Court for the period October 1, 2004 through December 31, 2005
County of Dinwiddie Clerk of the Circuit Court for the period January 1, 2005 through March 31, 2006
County of Fauquier Clerk of the Circuit Court for the period April 1, 2004 through December 31, 2005
County of Grayson Clerk of the Circuit Court for the period January 1, 2005 through March 31, 2006
County of Henrico Clerk of the Circuit Court for the period January 1, 2006 through March 31, 2006
County of Highland Clerk of the Circuit Court for the period April 1, 2004 through December 31, 2005
County of Lee Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Lunenburg Clerk of the Circuit Court for the period October 1, 2004 through March 31, 2006
County of Louisa Clerk of the Circuit Court for the period January 1, 2005 through December 31, 2005
County of Middlesex Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of New Kent Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Nelson Clerk of the Circuit Court for the period October 1, 2004 through March 31, 2006
City of Newport News Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Powhatan Clerk of the Circuit Court for the period January 1, 2005 through December 31, 2005*
County of Rockingham Clerk of the Circuit Court for the period January 1, 2004 through December 31, 2005
County of Russell Clerk of the Circuit Court for the period January 1, 2005 through December 31, 2005
County of Scott Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Southampton Clerk of Circuit Court for the period July 1, 2004 through March 31, 2006
County of Stafford Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Surry Clerk of the Circuit Court for the period January 1, 2005 through December 31, 2005
County of Tazewell Clerk of the Circuit Court for the period January 1, 2005 through March 31, 2006
County of Washington Clerk of the Circuit Court for the period January 1, 2005 through December 31, 2005*
County of Westmoreland Clerk of the Circuit Court for the period January 1, 2005 through December 31, 2005
County of Wythe Clerk of the Circuit Court for the period January 1, 2005 through December 31, 2005

Treasurers

Cities:

City of Poquoson Treasurer Turnover for the period July 1, 2005 through April 30, 2006